## AFRICA FINTECH OVERVIEW

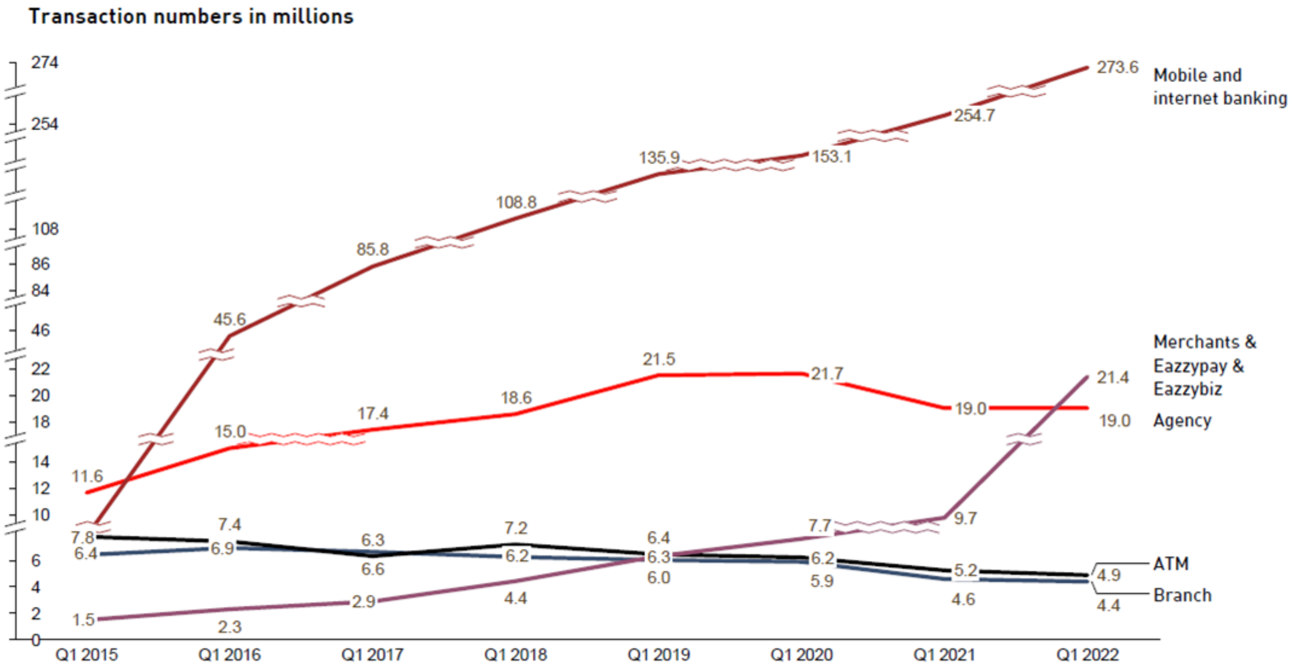
### Strong first quarter numbers and continued VC investment into African Fintech support our key theses

Recent results from core positions reinforce our key theses:
- The African consumer remains robust despite global developments.
- Financial Inclusion, enabled by technology, forges ahead at break neck speed.

**Safaricom (Kenya, 7.8% of NAV)** – Full year results to 31 March 2022 saw mobile money (MPESA) revenues grow by 30.3%, with future growth underpinned by some phenomenal statistics. MPESA crossed the 30m user mark, Lipa na MPESA customers grew 32% and active merchants grew 63%. A staggering 3.2m businesses in Kenya now accept MPESA payment.

**MTN Group (Pan Africa, 9.6% of NAV)** – First quarter results saw active mobile money customers grow by 26% to 59m. The number of active merchants accepting MTN's MoMo payments increased by 47% to 725,211 and the total value of MoMo merchant payments rose 125% to USD 4.3bn.

**Equity Group (East Africa and DRC, 9.5% of NAV)** – First quarter results saw EasyBiz and EasyPay platforms grow transaction value by 79%and 313% respectively. We never tire of this chart below, which shows how the innovative banks like Equity have transformed banking in Africa.




Safaricom

**7.8% OF NAV**

MTN

**9.6% OF NAV**

EQUITY

**9.5% OF NAV**

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# ECONOMIC AND POLITICAL OVERVIEW

## NIGERIA

The macro stats out of Nigeria seem a little disappointing, especially FX reserve accumulation, given that is Africa's largest oil producer. The blue line below demonstrates why the oil price transmission has been weak. Contributing factors are pipeline issues, the majors pulling out of Nigeria, local unrest and general lack of investment and government support.

**Macro releases (March stats):**

- Inflation was +15.9% y/y (Feb: 15.7%).
- FX reserves were steady at USD 39.6bn (Feb: USD 39.9bn).
- PMI rose to 54.1 (Feb: 57.3).
- M3 growth was 17.9% (Feb: 15.3%).
- Private sector credit growth rose to 15.7% y/y (Feb: 21.0%).

| +15.9% y/y | US$ 39.6bn | 54.1 | 17.9% | 15.7% |
|---|---|---|---|---|
| Inflation Rate | FX Reserves | PMI | M3 Growth | Credit Growth (Private Sector) |

## EGYPT

The ongoing IMF reform program has received a boost with the President directing the government to dispose of USD 40bn of state owned assets to the private sector over the next four years, welcoming foreign participation. He also instructed the government to "develop an integrated vision for the advancement of the EGX"; while these tend to be sweeping statements, it is certainly welcome in an economy often stifled by state or army involvement. It is also encouraging that the President views the EGX as an important and effective platform for privatization and economic development.

The critical factor, which has been a hallmark of the IMF program so far, is that IMF, the President, the MoF and the CBE are aligned. It is no coincidence that a few days prior, the IMF director had indicated that "expanding the role of the private sector in the country's economy is one of the key pillars the fund is discussing with Egypt". We are very encouraged that current events are reinforcing, rather than eroding this alignment.

S&P and Fitch affirmed their ratings, both sticking to their Stable outlook.

**Macro releases included (March stats):**

- Inflation rose to 10.5% y/y (Feb: 8.8%).
- FX reserves dipped to USD 37bn (from USD 41bn).
- PMI was 46.5 (Feb: 48.1).
- M2 growth was 22.4% y/y (Feb: 18.4%).

| +10.5% y/y | US$ 37bn | 46.5 | 22.4% |
|---|---|---|---|
| Inflation Rate | FX Reserves | PMI | M2 Growth |

## KENYA

There were some interesting points to note from the latest staff-level agreement between Kenya and the IMF. Fund staff and Kenyan authorities reached agreement on economic policies to conclude the third review of a 38-month extended fund facility and extended credit facility program.

Kenya will have access to USD 244m once the review is formally completed by the executive board, bringing disbursements to about USD 1.178bn. The IMF approved a USD 2.34bn program in April 2021.

- Staff projects growth at 5.7% this year, on a pickup in agriculture and continued recovery in services and other sectors (see chart below).
- While economic spill-overs from Russia's war in Ukraine will temporarily push inflation higher, the central bank is ready to contain second-round effects of higher global prices on inflation.
- "Kenya is on track to meet its fiscal objectives and put debt as a share of GDP firmly on a downward path".

As with Egypt, constructive engagement and alignment are critical right now.

**Macro releases (March stats):**

- Inflation decelerated to 5.6% y/y (Feb: 5.1%).
- FX reserves fell to USD 7.8bn (Feb: USD 7.9bn).
- PMI was 50.5 (Feb: 52.9).

| +5.6% y/y | US$ 7.8bn | 50.5 |
|---|---|---|
| Inflation Rate | FX Reserves | PMI |

## MOROCCO

The IMF and the World Bank estimate Moroccan growth at 1.1% in 2022, while the government estimates 2022E growth of 1.5% -1.7%, interestingly a downgrade from 3.2% initially estimated in the 2022 Budget Bill).

On the tourism front, the National Airports Office indicated that air traffic has reached 75% of the level attained in 2019. Depending largely on tourists from Western Europe, Morocco should be reasonably unscathed by events in Ukraine and given that its currency has largely tracked the Euro decline.

**Macro releases included (March stats):**

- Inflation was 5.3% y/y (Feb: 3.6%).
- FX reserves reached USD 34.3bn (Feb: USD 35.8bn).

| +5.3% y/y | US$ 34.3bn |
|---|---|
| Inflation Rate | FX Reserves |

## SOUTH AFRICA

It seems like president Ramaphosa is consolidating his power base ahead of the ANC elective conference in December this year. One key point of evidence is an ANC draft policy document released in April, which shows a significant move towards the right of the spectrum away from a state-led model and radical land reform. In a move which Ramaphosa backs, the ANC is proposing that the private sector take over failing SOEs.

In a vastly different approach to expropriation without compensation, it is now suggesting that land reform focuses on donations of land by corporates to give more access to black farmers. It is little surprise that Ramaphosa received many boos and was unable to deliver his speech at Cosatu's traditional May Day rally. Despite this unhappiness, Cosatu will remain an ally going into the election. In many ways, huge fiscal pressures and emergence of load shedding again has pushed the debate to the right. The populist moment which marked the end of the Zuma years and prevailed in much of Ramaphosa's first term is slowly fading, although many of its supporters, like Ace Magashule, will protest loudly.

**Macro releases (March stats):**

- Inflation was flat 5.9% y/y (Feb: 5.7%).
- FX reserves were USD 58.2bn (Feb: USD 57.7bn).
- PMI rose to 60.0 (Feb: 58.6).
- M3 growth was 8.4% y/y (Feb: 6.4%).

| +5.9% y/y | US$ 58.2bn | 60.0 | 8.4% |
|---|---|---|---|
| Inflation Rate | FX Reserves | PMI | M3 Growth |

## COMPANY UPDATES

**Fawry (Egypt, IT)** – FY21 results update: This was a set of results that reminds you that things don't go up in a straight line. Revenues came in +34%, EBITDA +29% and earnings +13%. Alternative Digital Payments (ADP) only grew by 9%, which at over 50% of revenues, weighed down on the total. Also expenses grew at a faster rate than revenues, as the company has to spend aggressively on talent acquisition and brand marketing. On both points above, the Company has asserted that ADP revenue growth can be revived and that the surge in opex is temporary. The launch of an ESOP program for the first time in 2021 also dragged. On the positive side, revenue diversification has continued apace and indeed accelerated in the fourth quarter. I believe 2022 should see us exit the no-man's land we are in, where the portfolio effect of higher weighted, higher growth streams starts to kick in. This should also reverse the current negative operating leverage we are now witnessing.

| (EGP 000s) | 4Q 2020 | 4Q 2021 | *Change %* | FY2020 | FY2021 | *Change %* |
|---|---|---|---|---|---|---|
| **Total Revenues** | **341,842** | **467,323** | **37%** | **1,234,563** | **1,658,157** | **34%** |
| *Alternative Digital Payments (ADP)* | *246,400* | *261,621* | *6%* | *901,700* | *985,300* | *9%* |
| *Banking Services* | *49,300* | *134,222* | *172%* | *174,600* | *411,015* | *135%* |
| *Acceptance* | *13,709* | *51,793* | *278%* | *47,272* | *167,194* | *254%* |
| *Agent Banking* | *35,591* | *82,430* | *132%* | *127,329* | *243,821* | *92%* |
| *Microfinance* | *23,900* | *39,912* | *67%* | *72,300* | *136,935* | *89%* |
| *Supply Chain Solutions* | *19,800* | *26,044* | *32%* | *69,100* | *98,354* | *42%* |
| *Others* | *2,442* | *5,525* | *126%* | *16,863* | *26,553* | *58%* |

We are confident in the megatrend of Financial Inclusion in Africa and are also confident in the opportunity for Fawry and its peer group in Egypt. The operating stats table below points to the tremendous progress Fawry has made over the year.

| Operational KPIs | FY2020 | FY2021 | *Change %* |
|---|---|---|---|
| Active Network Customers (mn) | 29.0 | 40.5 | *39.7%* |
| Total POS Terminals ('000) | 228.3 | 268.5 | *17.6%* |
| Acceptance Enabled POSs ('000) | 141.3 | 186.3 | *31.9%* |
| Banks Active and Contracted | 33 | 36 | *9.1%* |
| myFawry App Total Downloads ('000) | 1,768.7 | 4,968.7 | *180.9%* |
| Services Provided | 1,186 | 1,634 | *37.8%* |
| Transactions (mn) | 1,106.1 | 1,157.5 | *4.6%* |
| Mobile Wallet Transactions (mn) | 38.1 | 52.4 | *37.3%* |
| Mobile Wallet Processed Value (EGP mn) | 20,455.0 | 39,872.1 | *94.9%* |
| **Total Throughput Value (EGP mn)** | **81,037.0** | **130,850.2** | ***61.5%*** |

**IDH (Egypt, Healthcare)** – FY21 results update: A banner year, with underlying business performing strongly. Revenues grew 97%, EBITDA 11% and EPS 145%. A bumper dividend of EGP 2.17 was declared, equating to a 90% payout ratio. FCF was up 160%, despite higher capex, from an aggressive 21% branch expansion. Al Borg Scan grew revenues 81% and Nigeria grew by 49%, with Nigeria already profitable. Conventional (excl any Covid related tests) tests revenue was up 22%, which is 7% below where the business was growing pre pandemic. To the point that success is mostly due to Covid testing, I would point out that:

- Home calls are more costly to the company, so negatively impacted margins.
- Notwithstanding the above, the provision of home calls did open up previously undeserved customers and locations.
- The majority of people stayed away from all medical establishments and also only carried out tests deemed absolutely necessary.
- All business lines and geographies showed good organic growth.
- Branch expansion, held back by lockdowns and restrictions, is re accelerating.

**MM Group (Egypt, Consumer discretionary) FY21 results update and Outlook:** This was a case of wrong place at the wrong time. The recent share price movement reveals a lot more about market sentiment than the company's underlying performance. MM Group released what could be described a decent set of results under trying circumstances. Revenues increased by 3.7%, EBITDA by 7.2% and EPS +0.7%. Shrewd working capital management and lower capex, saw them increase FCF by 60% and further increase their net cash position to EGP 202m. Some of the operational positives were auto sales +15%, Samsung and Nokia sales +20% and home appliance sales +31%.

A major factor impacting 2021 results was the inability to source Huawei inventory, as the Company focused on its core home market of China and other key Asian markets. MM estimates they lost gross revenues of EGP 1.5bn or 15% of revenues and PAT.

Another impact on earnings was the loss from Associates of EGP 22m, mainly their Payments company Ebtikar. Ahead of the IPO, Ebtikar took full provision for taxes that should be paid by the cellphone companies Vodafone and Orange, as well as draconian credit provisions in Ebtikar's micro lending business. Compared to expectations of a profit from Ebtikar of around EGP 30m, this represented a major impact on eventual Group PAT of EGP 302m.

The well explained, but nevertheless mixed set of results, combined with events and rumours that took place after the year end, were a cocktail for the bears, particularly given the global and Egyptian macro backdrop. The key event was the CBE requiring individual LC's to be opened for each import invoice, as opposed to an open account, which slowed some imports as well as the rumour that the CBE was not going to allow allocation of FX to so-called luxury imports such as smart phones and cars. In terms of outlook, they anticipate a tough year in Egypt due the devaluation and possible supply disruptions, but also point to a number of positives, namely:

- Arrival of Huawei from January 2022.
- Launch of Apple in July, where they recently one agency rights.
- They anticipated the devaluation and possible supply chain disruptions, so procured three months of inventory in phones, in early January. These will be bled out to the market at slower rates, but higher prices.
- Rapid growth in profitability from Ebtikar after the clean up and likely reversal of tax provisions.

To conclude, we do not see an imminent share price recovery, however an improved performance in 2022 should see a very strong recovery in a share that has been over punished. In terms of valuation the company trades on a 2021 PE of 10.6x and 4.3x EV/EBITDA, looking forward we have 8.1x PE and 3.3x EV/EBITDA.

**Obour Land (Egypt, Consumer staples) q122 results update:** An exceptionally good set of results, but you cant defy gravity forever. Revenue grew 39%, EBITDA +42% and EPS +30%, dampened by FX losses on USD loans and leases. White cheese, still 90% of revenues grew volumes by 23%, with 15% coming from price increases. Smart inventory management saw the company expand gross margins by 220bps to 24.7%. They should also put out a decent second quarter result, but that is where the good news ends unless we have a dramatic reversal in soft commodity prices. The main raw material, Skim Milk Powder, is up between 35 and 50% in USD and Palm Oil prices are running. The company typically keeps 3-4 months inventory, but that will start to run out in the second quarter. The EGP price of these inputs will be up at least 50%, a magnitude we believe will be incredibly difficult to pass on to the end consumer. Higher inputs automatically make for a heavier balance sheet and a drain on the cash flow statement. As in previous periods and as the largest, most efficient market player, the company will ultimately benefit, however earnings and cash flow will be under pressure well into next year.

## MARKET OUTLOOK

We continue to allocate to high quality businesses; those that score highly on our internally developed, Likert Q-scoring system, both currently and over time. We have two additional quantitative overlays, valuation and growth. We also have two qualitative overlays being management and ESG. What is particularly exciting is that we have a number of businesses across Africa that fit these criteria. The key transformational trends of financial inclusion, urbanisation and economic formalisation underpin a robust African consumer story that is taking shape regardless of global volatility. We allocate to the best companies in the sectors that tap into this transformation. At the moment, we have a bias towards financial inclusion and fintech themes as they do particularly well on our growth metrics.

**Nigeria** – Nigeria's outlook is improving with substantially higher oil prices making painful but necessary economic reforms more likely. However, the latest plan to delay fuel subsidy reform again shows institutional weakness. We still wait for a signal from the CBN for a free flow and float of the Naira which is for us the real trigger for economic recovery. The communications, fintech and banking sectors are growing strongly, yet high quality companies exploiting these, are at all time low valuation multiples.

**Egypt** – The outlook for Egypt remains positive especially towards the end of 2022 when a new capex cycle is expected to kick off. The exceptional progress made under the IMF program from 2017 to 2020 has been evidenced in a stable FX and net reserve position. Moving from gas importer to exporter helped cushion the blow from lost tourism revenues and the CBE's sound monetary policies have kept the bond carry trade alive. With 98% of household consumption in cash, the investment opportunity for us in fintech is immense in this 100m population country and it will also drive economic formalisation and increased government revenue through widening of the tax net. Management teams are signalling a new capex cycle. We expect an acceleration of capex projects towards the end of 2022 as capacity becomes stretched.

**Morocco** – Morocco's key economic drivers are mining, agriculture and tourism. Strong commodity prices and a good rainy season should help to offset weakness from tourism. In terms of outlook it remains a stable, mid-growth country with excellent opportunities in retail and fintech.

**Kenya** – Kenya missed its key tourist season of July-August, owing to travel restrictions. Some support will be provided by a good agriculture season and high soft commodity prices, where Kenya is a large exporter of tea, coffee, flowers and vegetables. Overall, we are satisfied by the performance of our financial inclusion focus here and expect growth to be steady.

**Mauritius** – Mauritius remains very dependent on the timing of large-scale tourism recovery. Unless tourism comes back strongly in the peak December 2022 season, which is now under threat from the Omicron variant, the macro and MCB will be under pressure.